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THE JOURNAL

OF

POLITICAL ECONOMY

JUNE—1898

THE FINAL REPORT OF THE INDIANAPOLIS MONETARY COMMISSION.

THE history of the movement which culminated in the Indianapolis Monetary Commission is a fairly familiar story. We need only remind ourselves of its leading incidents. While agitation for reform has been more or less in evidence for twenty-five or thirty years, yet it has had a thoroughly practical character, with some prospect of a successful issue, only since the panic of 1893, and it should, perhaps, be dated in particular from the indorsement by the Bankers' Association of the so-called Baltimore plan in the fall of 1894. But, as is well known, even the agitation which was then initiated, and which was followed by definite recommendations from President Cleveland and his advisers, as well as by the introduction of several bills in Congress, failed to secure any results in legislation. It looked more and more as if the question would again be allowed to drop out of sight. The precipitation of the silver issue in the campaign of 1896, however, once more brought the matter sharply to the front. The discussions of that campaign educated the people to the need of reform, and the verdict at the polls seemed to constitute a mandate to undertake the task at once. As regards method, the public was already becoming familiarized with the idea of a commission of business men and experts, to which should be committed the consideration of the

questions involved, and the preparation of a scheme to reconcile contending parties and interests. The failure of Congress to take any action in this direction naturally led to a resort to private initiative. The volume before us tells how the matter was set on foot in the Indianapolis Board of Trade in November of 1896, from this body passed on to a preliminary convention representing ten or twelve neighboring cities, by which preliminary convention a call was issued for convening a thoroughly representative body in January of 1897. As is well known, this convention, in spite of a good deal of wrangling, agreed upon certain principles of reform, and appointed an executive committee which should endeavor to induce Congress to provide for a monetary commission and, in case of failure, should itself appoint a commission to investigate the whole matter and report upon a plan of reform. The inaction of Congress necessarily led to the choice of the second alternative. The commission began its sessions in September of 1897, sent to a very large number of persons, whether business men or specialists, a *questionnaire* intended to bring out opinions and advice on all the leading points included in the question of reform, and, after many weeks of deliberation, agreed upon a detailed plan. This plan, with a brief defense, was first published in January. In somewhat more elaborate form it was reported to the second meeting of the Indianapolis convention January 25, 1898, and was considered and indorsed with practical unanimity by that body the following day. In the preliminary report of the commission, presented to the executive committee of the Indianapolis convention, a promise was given to furnish a final and more elaborate report, which should contain a defense of the recommendations of the committee much fuller than could be brought within the scope of a small pamphlet. This final report, the preparation of which was delegated to Professor J. Laurence Laughlin, has just been published, and is now before us.¹

¹ *Report of the Monetary Commission of the Indianapolis Convention of Boards of Trade, Chambers of Commerce, Commercial Clubs, and other similar bodies of the United States.* Chicago, 1898. 8vo, pp. xiv+608.

It is a volume of over six hundred pages, and consists, in a general way, of four parts. First, we have an introduction which gives a full history of the Indianapolis movement from its inception in November of 1896 to the second meeting of the convention in January 1898. This historical sketch is followed by a reprint of the preliminary report made to the convention in January, and a copy of the commission's bill as presented to the house of representatives by Mr. Overstreet. The body of the volume, pages 75 to 490, inclusive, is occupied with what is designated as the Final Report, and is divided into three parts, viz.: Metallic Money, Banking, and the Demand Obligations of the Government. The remaining ninety odd pages contain two considerable appendices, devoted respectively to a digest of selected laws of the United States relating to money and banking, and to the statistics of currency in this country.

Evidently the chief *raison d'être* of this volume must be found in the portion called the Final Report. In a general way this is to be described as a defense of the commission's bill, though the word "defense" would here have to be interpreted somewhat liberally. In fact, there is very little space devoted to the direct consideration of objections. The major part is really of the nature of an elementary treatise on money and banking, intended to prepare the mind of the average reader for the acceptance of the commission's plan by giving him a more thorough acquaintance with the accepted principles of monetary and banking science, as also with the history of past experiments in these lines. By this it must not be understood that the report colors either history or theory in order to produce a favorable attitude toward the bill. It is thoroughly fair in tone, and at almost every point takes positions about which there is no controversy.

Part First, which discusses metallic money, contains six divisions, which, it would seem, might as well be numbered as chapters, discussing the functions of money, the standard, the laws of token money, etc. None of this is intended to be original, and there is, perhaps, very little novelty even in treat-

ment. The last section, on the movements of gold, is perhaps more valuable to the average reader as furnishing material less well known and less easily available.

Part Second, on banking, is much longer, consisting of 226 pages, broken into nineteen sections. Here again we have mostly a treatise on the principal phases of the history and theory of banking, though in this part more space is given to the specific discussion and defense of the commission's plan. One section, indeed, bears the title "The Working of the Commission's Plan."

Part Third, which treats the government demand obligations, is divided into six sections, the second of which is a very complete — perhaps unnecessarily complete — account of the history of these notes, occupying forty-six pages. It is followed by three sections devoted to the effects of the issues of government paper on the cost of the Civil War, on prices, and on wages, respectively. The last section is a specific defense of the plan to retire government notes, and is an extremely satisfactory discussion of this subject, from both the purely economic and also the fiscal standpoint.

Considering the volume as a whole, I cannot help thinking that it could have been made more effective by breaking up somewhat the argumentative matter of the report. The reviewer, at least, would have found it more convenient, if that matter, which might be called an elementary treatise upon the history and theory of money and banking had been presented by itself; this followed by an account of the commission's plan, which should make clear its leading features; and the discussion concluded with an orderly statement of the objections to the plan, and a formal reply to those objections. The mingling of these various elements makes it rather difficult to get at the significance of the whole, and will, I think, somewhat diminish its usefulness as an armory from which the advocates of reform may obtain weapons for the conflict.

Another criticism which I am inclined to make, is that the absence of any account of the results of the *questionnaire* is more

or less of a defect.¹ At least I personally find myself somewhat disappointed not to see any statistical summary as to the opinions returned by different classes of people upon certain leading questions; as for example, the retirement of the greenbacks, the wisdom of a resort to an issue based upon general assets, etc.

So much for the general character and content of the report. Let us now give somewhat fuller consideration to its matter, especially the matter of the Final Report which, as already noted, constitutes the heart of the volume. As we have seen, there are really several different elements combined in this part of the work. A considerable portion consists of expository matter, which, systematically grouped, would constitute a good elementary treatise upon money and banking. Of this we can speak in terms of almost unqualified approval. One might look far and not find a better text-book on this subject. The style is clear and simple; the tone is moderate and free from partisanship; and the matter presents the best current opinion upon almost every important topic. Particularly valuable are the sections devoted respectively to gold movements, the nature of a bank, the profit of a bank, note issues, and the taxation of banks.

What has been said with reference to the exposition of general principles applies with little change to the historical portions of the treatise. There are a number of sections which would make valuable chapters in a volume on the history of money both in the United States and in Europe, particularly those devoted to the United States silver experiment, to the history of our national bank system, to instances of notes based upon assets, to the history of United States notes, and to the effect of paper issues on the cost of the Civil War, prices, and wages. These not only contribute greatly to preparing the mind of the reader to accept the commission's plan, they are also extremely valuable as gathering together important material from many different sources and making it easily available for use in the campaign of education.

¹ It is expected that the results obtained in response to the circular of questions will be published in detail in a separate volume.—EDITOR.

But it is hardly necessary to remark that the really important parts of this report are those which bear directly on the plan of reform ; for here plainly we strike the heart of the whole matter. Let us proceed, then, to consider more specifically the commission's plan of reform, the objections made to it, and the defense offered.

Viewed broadly the plan of reform proposed by the commission may be thought of as having been directed to the accomplishment of three chief objects ; first, the insuring of greater stability in the standard of value ; second, the furnishing of a satisfactory bank currency ; and third, the providing of better banking facilities for the South and West. In seeking to accomplish the first object, *i. e.*, to make it incontestably certain that the value of the dollar shall continue to be determined by 25.8 grains of gold, the commission proposes to operate along two principal lines. First it seeks by various means to define and strengthen the national purpose to maintain the gold standard. Secondly, it tries to bring about considerable improvements in the methods and machinery for carrying out this purpose. Moving along the first named line, it begins with the declaration that 25.8 grains of gold nine-tenths fine shall continue to constitute the standard unit of value, and that all debts public and private shall be payable in conformity with this standard.

As respects the wisdom of these provisions, there is little room for difference of opinion, provided, of course, we are agreed that it is desirable to maintain the gold standard. The report gives some little attention to the convincing of those who have doubts on this point. It is pointed out that, even if we look upon international bimetallism as abstractly desirable, it is no longer a practical question, since there is no chance of its adoption by the leading nations of the world. Whether welcome or not, the fact is certain that the alternatives to us are gold, silver and paper. As to the right choice among these there is really no room for difference of opinion. We are bound to try to maintain the gold standard. This being the case, we surely should try to do a good job ; and this means that we

should *commit* ourselves fairly and squarely to this line of conduct.

Having thus determined upon a clearer definition of the national purpose to maintain the gold standard, the next business of the commission was to provide suitable conditions and machinery. Here the first matter to be settled was what institution should undertake the task of maintaining the standard—that is, what institution should undertake to keep on hand a stock of standard money and with its aid maintain the convertibility of the other media of exchange. Under modern conditions somebody must do this. By far the larger portion of the circulating medium consists of something which is intrinsically inferior in value to standard money, *e. g.*, bank deposits, paper money, overrated silver, etc. Now, all these forms of the circulating medium left to themselves tend to fall away in value from the standard. To insure that they shall at all times be equivalent to the gold dollar, they must be at all times directly or indirectly convertible with that dollar. This plainly necessitates that there shall be kept somewhere in the country a stock of standard dollars, in other words, a standard money reserve, and that the guardian of this standard money reserve shall be prepared at all times to pay it out in exchange for one or more of other forms of circulating media. Who shall undertake this task? The choice, of course, in a general way, lies between the treasury, on the one side, and the banks, on the other. As is well known, the European practice is to commit this function to a great chartered bank which possesses more or less of a monopoly of the privilege of issue, and which bargains to maintain the standard money reserve of the country as a part of the price of its monopoly. The commission accepted at once the opinion almost universally held by experts, that the European practice is the better one, and so provided for the ultimate transfer of the burden of keeping the reserve from the treasury to the banks.

Against this decision of the commission it was inevitable that objections should be brought. In the first place, the process

of transferring the task from the treasury to the banks almost inevitably involves the retirement of government notes. At least, such is the method of making the change in the plan of the commission. Naturally, then, the question arises as to whether it is expedient to forego the advantage gained to the government from the issuing of non-interest-bearing demand notes. In answer to this objection the Final Report makes three points. First, even to the treasury there are some considerable offsets to the saving of interest, *e. g.*, interest on the idle reserve which has to be kept, expense and trouble of redemption, and diminished credit in the banking world with so large a volume of demand obligations outstanding. Secondly, the system has proved so inefficient practically that it has kept business in a fever of anxiety and uncertainty, entailing incalculable loss to private individuals and so in the end to the whole community. Thirdly, and this is perhaps the most important point made, to the community taken as a whole there is really after all no material gain. For, in our case, the alternative to the government issue of paper money is banking issue *under the conditions of perfectly free competition*. But, with such free competition, the advantages of the process of issue are certain to be distributed among the people at large in lowered rates of discount. This point is frequently overlooked, because the student almost always has in mind as the natural alternative to our system one like that of France, or England, or Germany, where there is a substantial monopoly of the power of issue in some one great bank. In such case, of course, the profit which the government foregoes by relinquishing the issue of notes is absorbed by a corporation which has the franchise, and, so, the loss to the government is not compensated by a gain to the people at large.

Thus it must be admitted that the supposed advantage to the nation from maintaining a non-interest bearing loan is really non-existent, that the popular ideas upon this subject are wholly inaccurate. But to establish this point is not enough. Having proposed what amounts to a revolutionary change in the currency system of the country, the commission is in duty bound

to show that that change is not only harmless, but indispensable. This is particularly true in view of the fact that there is a powerful public sentiment in favor of the retention of the greenbacks. So powerful is this sentiment that probably nine-tenths of those who make a business of observing practical politics would say, without a moment's hesitation, that the retirement of the greenback is, politically speaking, wholly impracticable. This obligation to show the positive harmfulness of the treasury-note system and the necessity of its abolition, the Final Report does much to meet. This is plainly the significance of the sections devoted to the history of the greenback and to the study of its effects upon the cost of the war, the level of prices, and the rate of wages. The matter is also more directly considered in the section on the Retirement of United States Notes. The treatment is full and able; yet, I am bound to say, that it is not to my mind entirely convincing. I cannot help thinking that here, as in so many other cases where the advocates of sound money attack popular views, they weaken their case by taking an unnecessarily extreme position. Personally I have never been able to feel so entirely certain that a circulation consisting of government paper is bound to be mismanaged. The usual appeals to historical experience upon this point seem to me by no means decisive. Nations, like individuals, live and learn. There is ample evidence that on this matter of credit money they have learned. The whole history of credit, whether as an auxiliary to capital, or as a medium of exchange, shows that it is an extremely valuable but dangerous tool, skill in the use of which has required the learning of many lessons. Not only has government paper been the source of much disaster to nations, the same is true of bank paper. It has taken the world a great while to learn to handle bank notes in such a way that they should not be productive of more harm than good. As a matter of fact, taking everything into account, the treasury has done fairly well with the greenback. As long as a large section of the public is bitterly opposed to the maintenance of the gold standard, is ready to use any means fair or

unfair to promote the establishment of silver, it is impossible to give the system stability on any plan. That in such a state of public sentiment the treasury has succeeded in maintaining gold payments for nearly twenty years—certainly as long a period as the banks of this country ever maintained the convertibility of their paper—surely this fact shows that the usual dogmatism as to the necessary incompetence of the government in the handling of the paper circulation is not altogether warranted. Of course I do not mean to deny the theoretic force of the usual arguments, that the banks can be brought to account while the treasury cannot, that the treasury is constantly hampered by inaction or interference of Congress, that it is bound to be influenced by political motives, etc., etc.; I merely insist that our experience shows that the practical significance of these arguments has been exaggerated.

Again, the condemnation of the treasury note, because of its inelasticity, always seems to me largely unfounded. I will not insist, though I consider the proposition quite likely, that there is no good reason why the treasury note should not be elastic. I would merely urge that it is a mistake to insist that every part of the currency needs to be elastic. Plainly there exists in the country at all times the need for a very large stock of circulating medium. Even in the dullest period the United States will make use of 1000 or 1200 millions without the slightest sense of plethora. Now there is no good reason for making this portion of the money stock elastic. The monetary system, as a whole, is elastic, provided the *marginal* supply, so to speak, is elastic. From the standpoint of pure theory a perfectly natural system to establish would make the money of the country, outside token money, to consist of three chief ingredients, viz., an adequate stock of standard money to serve as a foundation for the system; second, a considerable volume of inelastic money—overrated silver or government paper or both; and, finally, a proper supply of thoroughly elastic bank notes. The natural course of evolution has already worked out such a system in its principal outlines in several important

countries. In fact it is evident that the members of the commission themselves accepted this general theory as respects silver. That is, they did not attempt to retire that silver or to give it elasticity. They assumed that a place could be found for it, or most of it, in what Professor Taussig calls the "large change circulation." Why should they not, in a similar way, find a place for at least a large share of the treasury notes, say, in the bank reserves?

But it is not only possible to argue that the usual fear of great evils from a continued issue of government paper is largely unfounded. I am tempted to carry the war into the enemy's camp, and to insist that there are grave doubts as to whether the banks would do as well in the way of maintaining the standard of value as the treasury now does. Is not expert opinion in this country too largely influenced by European experience? Is there not some failure to recognize that conditions in Europe and America are in important particulars fundamentally different? In the leading European states, whose example we are wont to cite, the task of maintaining the ultimate gold reserve rests upon some great chartered bank, possessing substantially a monopoly of the power of note issue. Now, inevitably, such a bank, with vast capital, world-wide prestige, a multitude of connections with all the banking centers, certainly has far greater fitness for the task of maintaining the reserve than a government treasury, more or less subject to the exigencies of practical politics, more or less liable to interference from the legislative branches of the government, etc. But it must be remembered that there is a very great difference between the undertaking of the task in question by such a bank and by an unorganized mass of small banks. In the first place, unity of action will naturally be lacking. No one bank plainly could undertake the task, and concert of action among a large number of organically independent and competing banks on so delicate matter as the management of the ultimate gold reserve of the country is extremely difficult. Doubtless there are some reasons for hopefulness at this point, suggested by repeated experience of the New York

banks in periods of panic, when they have acted together in a fashion that is demanded by the exigencies of the case, though not altogether to be anticipated, in view of the selfishness of human nature. But there is still room for doubt. Again certain important requisites of a psychological character will be wanting. The business world will not be able to turn its eyes to some one institution like the treasury, or the Bank of England, and see a gigantic reserve which promises by its very bulk to insure stability to the system. Today, in spite of the constant alarming predictions of the advocates of greenback retirement, it is still practically impossible to convince the majority of business men, and even of bankers, that there is any serious danger to the gold standard when they see 125 millions in the treasury. Still another psychological factor of importance is the consciousness of the unlimited credit and borrowing power of the treasury — a power which not even the mightiest banks of Europe could possibly hope to match. Doubtless it would be answered that the use of this borrowing power by the treasury depends upon the determination of the United States to continue gold payments — that, consequently, it is liable at any moment to be withdrawn by Congress. There is certainly force in this argument; but less than might at first thought seem. A congress which would not hear to granting the power to issue bonds for the maintenance of specie payments will still be a long way short of taking away a power which has already existed for a quarter of a century. On the other hand, in the face of a congress which was so thoroughly hostile to gold, as such action would imply, there would be no possibility of maintaining the gold standard in any case.

Besides these *a priori* considerations, it would be easy, as before noted, to make a plausible case from experience. The plain fact is that during one of the most trying periods in our history, in spite of an opposition to the gold standard which more than once has been on the very eve of victory, and which again and again has compelled a resort to the most dangerous compromises, the treasury has maintained the parity of all our

moneys with gold. It is in the highest degree doubtful whether banks would have done as well.

But, if it be admitted that the commission chose wisely in deciding to relieve the treasury of the task of maintaining the standard, two questions still remain: Have they proposed suitable provisions for effecting the transfer to the banks, and have they insured that, after the transfer, the work shall be cheaply and well performed? In the first place, as respects the transfer, Professor J. F. Johnson, in an article in the *Annals of the American Academy* for March of this year, objects that it really is not made — that the treasury is not relieved of the burden of maintaining the gold standard by the commission's plan; since it provides that the issue department shall exchange gold for silver dollars, while no provision is made for the retirement of these silver dollars when once redeemed. Under such a plan it would seem, therefore, that an endless chain would be made out of the silver dollars exactly similar to the one which has been made out of treasury notes. To this the Final Report of the commission replies that silver dollars once redeemed are not again to be paid out, except in exchange for gold, so that the endless chain would very soon be cut. This answer seems entirely adequate, if the plan of the commission really contemplates such treatment of redeemed silver. It was not altogether a natural inference from the bill that this was the case; since the section which touches this point says only that United States notes or treasury notes (not mentioning silver) once redeemed shall not be paid out, etc. Doubtless, however, Professor Laughlin is correct in his interpretation of the law. It is probable that the mere absence of any authority in the issue department to pay out any particular kind of money after it has been redeemed would be sufficient to insure its being kept. Still, if it was desirable to make assurance doubly sure by a specific statement in the case of notes, why not also for silver?

Granting, then, that the commission's plan really puts the task of maintaining the standard upon the banks, we next ask, Is its method of bringing about this transfer, on the whole, the

best one ? At this point we naturally find ourselves contrasting the commission's method of procedure with that contained in Representative Walker's bill, or in the bill just reported to the house by the committee on currency and banking. As the reader will probably remember, Representative Walker's plan is to substitute for the treasury notes a joint treasury and bank note for which the banks shall become responsible. That is, they must not plead when called upon to redeem it in gold that it is legal tender, or that it is a treasury note, but must themselves assume the responsibility of maintaining its parity. The commission's plan, on the other hand, proceeds by the method of withdrawing the government notes altogether, thus getting the treasury directly and fully out of the business of circulating demand obligations. The Walker expedient has an air of artificiality which is rather trying to the student. But two or three things are undoubtedly to be said in its favor. In the first place, it avoids the very wide-spread prejudice against the retirement of the greenback. It maintains the large non-interest-bearing loan ; for, of course, the advantage of issue inures to the treasury, although the bank has the burden of keeping the issue at par. But, again, the Walker plan has the advantage of transferring the burden to the banks *immediately*, while the commission's plan postpones this, or, at least, its final completion, for ten years. If the change is so very desirable as the commission believes, it would seem important to have it consummated sooner than the date named. Indeed, if the country can afford to wait ten years, it is rather difficult to believe that it could not wait twenty or thirty. The chances are now that we are passing through, or at least by the end of ten years shall have passed through, the most troublesome period in dealing with the opponents of the gold standard. That is, we can probably expect with some assurance that ten years from now the country will pretty well have resigned itself to the gold standard, and will have made up its mind to employ all the means necessary for the efficient maintenance of that standard. Further, the spreading of such a process over a long period always

exposes the nation to the danger of having the operation of the law suspended by a later congress in some period of depression foolishly attributed to the action of that law.

Another objection which has been urged against the commission's method of putting the task of maintaining the standard upon the banks is that it will require a very large addition to our stock of gold, and that to get this increased supply will be very difficult, if not impossible. The reasons for this increase in need are that there will be no other legal tender for reserves, and, secondly, there being no distinction made among banks, all will be obliged to maintain gold payments, in spite of the fact that this is quite needless. To this objection the Final Report answers, first, that the gold released by the treasury, in addition to what the banks already control, will nearly satisfy the demand, that, secondly, the United States is a large producer of gold, and has only to keep its own product; that, finally, in the last resort, we could use the ordinary means to restock our reserves from European centers. This does pretty well, but it may be doubted if it altogether covers the case. No one would deny that we could get gold. The only question is, Will the cost be too great? Can we get a hold of it without such interference with the natural distribution of gold—such “tugging at the blanket,” to use the common metaphor of the bimetallists—as will cause some fall in prices? Very likely the scientific student would answer in the affirmative, would declare that no fall in prices would follow our drawing 100 or 200 millions from European sources to increase our bank reserves. Still, may it not plausibly be contended that, in the present state of the public mind, considering the great extent of the conviction that there is already too much demand upon the world's supply of gold, it would be inexpedient, as a matter of practical politics, to do anything to increase that demand. Our usual method of answering the contention of those who make much of the increased burden on the world's stock of gold is to say that, with the greatly extended substitution of credit for metallic money, the real demand for gold has not materially increased,

but has rather diminished during the last twenty-five years. Now, is it not of doubtful wisdom for us to adopt a policy which is retrograde in this respect, which calls for as much gold again as is now in the hands of the banks ?

But, again, is it not an objection to the plan that, if perfectly feasible, it is unnecessarily costly ? It surely is not necessary that the reserve of every one of the four or five thousand banks throughout the United States should be a gold reserve. Nobody in the village of Podunk is going to want gold, anyhow gold in such quantities as to necessitate the keeping of even 5 per cent. of its deposits in that metal. The demand for gold will show itself only in two or three centers having international connections, from and to which bullion movements take place. If we propose to require the banks to maintain gold payments at all, would it not be the more natural way to require the gold payments, and so the keeping of gold reserves, in these few central places, and then, in order to provide reserves for the remaining banks of the country, to maintain 200 or 300 millions of legal-tender notes ?

Quite a different objection to the plan of the commission is that of Professor Johnson, to the effect that under the new order the stock of gold would be too small, and the volume of credit too large, to insure a sound and stable system. He thinks that, instead of replacing all the retired treasury notes with bank notes, we should leave a place for gold to fill up. Instead of doing this, the commission actually would expand still further the bank circulation, thus still more increasing the disproportion between the base of gold and the superstructure of credit built upon it. The significance of this objection largely depends on one's habit of mind. Personally, I should not give it much weight.

Some other questions which naturally arise in considering the commission's bill concern the conditions under which the banks shall maintain the gold reserve and their organization for the accomplishment of this task. Thus it would be of interest to consider just how far the task of the banks would be increased

by the presence of a large amount of overrated silver. It is probable that any difficulty at this point would largely be overcome by the provisions which make a place for this silver by withdrawing other forms of credit money of denominations under ten dollars. As respects the organization of the banks for maintaining the standard, the absence of any provisions at this point will be to some critics an objection to the plan. Plainly it is quite unnecessary that all the banks of the country should burden themselves with this task, since the demand for gold will naturally be concentrated in two or three monetary centers. On the other hand, it is equally plain that at these few places every condition should be favorable to the thoroughly satisfactory performance of the task. For many years the New York banks have been accustomed to act more or less together in a crisis, instead of resorting to the *sauve qui peut* policy. Would it not be well to provide for legalizing in some way such organized action, especially with reference to this maintaining of the gold reserve? However, perhaps the commission is right in leaving this to be worked out by natural evolution.

Thus far, in considering the commission's plan for managing the gold reserve, we have confined our attention to the system which is ultimately to be established. But, since the transition to this ultimate system is to be a gradual one requiring for its completion ten years, it seemed necessary that something be done to insure better management during the interval. The different provisions which in one way or another will contribute to this result are quite numerous and not altogether easy to classify. They might, perhaps, be conveniently grouped as those which attempt to make the task easier for the treasury, and, second, those which seek to render the treasury more efficient in the performance of the task. Generally speaking, every expedient which tends to increase the confidence of the country in the system would make the matter easier. For, first, increased confidence would tend to hinder the withdrawal of gold either from the country or from the treasury reserve. In like manner, it would incline the banks to share the burden with the treasury,

as they did prior to 1892. Further, it would encourage the flow of gold to the treasury by way of duties on imports. Now, the bill would in many ways tend to increase the confidence of the country in the stability of the system. The definite declaration in favor of the gold standard ; the formal determination to pay government obligations in gold ; the isolation of an issue department ; the authorization of the secretary to maintain whatever reserve he considered necessary to insure public confidence ; the stoppage of the coinage of silver ; the providing of a place for silver by the withdrawal of small notes ; the diminution of the stock of government credit money by 50 millions ; the prohibition of reissue in the case of redeemed treasury notes—these and others would contribute greatly to give to the public confidence in the permanence of the gold standard.

But, besides those provisions which help by increasing confidence in our system, there are still others which would operate to render the task of the treasury easier. Thus the various expedients proposed for insuring elasticity all act in this direction. It is hardly too much to say that to make the monetary stock thoroughly elastic is to solve the whole problem of maintaining the standard. For, while it would doubtless be an exaggeration to attribute every withdrawal of gold from the country and from the treasury to a plethoric condition in the monetary system, yet no one can doubt that such conditions contribute greatly to the result in question, and that, for such a gold drain, prompt and thoroughgoing contraction furnishes the very best remedy. Another provision of the bill which will operate in the same direction to make the task of the treasury easier than it has been in the past, is the retirement of gold certificates. For this must tend, in some measure at least, to hinder the accumulation of gold by the bankers and so to encourage its flow to the treasury. As long as bankers can be saved the trouble and expense of caring for the gold, while at the same time owning it, as under the gold-certificate system, they will be inclined to prefer gold, even when they have no other good ground for doing so. If, however, we make it necessary for

them to take care of the metal itself, plainly their disposition to hoard gold would be greatly diminished, and thus the gold supply needed for the reserve would be released and would more easily be drawn into the treasury.

But the commission was by no means contented with merely trying to make the task of the treasury easier ; it also set about making such changes in the machinery for maintaining and using the reserve as would secure far greater efficiency than we have known in the past. First, a separate issue department is to be organized quite independent of the fiscal department of the treasury, under the headship of a special assistant secretary. As to the expediency of this change, there seems to be no difference of opinion. Secondly, for the accumulating of a reserve the secretary is authorized to take from the general fund of the treasury an amount of gold and coin and bullion equal to 25 per cent. of the outstanding notes, and, in addition, a sum equal to 5 per cent. of the aggregate coinage of silver dollars, to increase this sum, if in his judgment it is necessary, by the transfer to it of any funds in the treasury not otherwise appropriated, as also by the sale of the silver coin or bullion held against treasury notes of 1890, and in the last issue to insure the maintenance of the reserve by the sale of gold bonds. To secure the efficient employment of this machinery for maintaining the instant convertibility of all forms of money into gold, the issue department is authorized to redeem both at Washington and at such subtreasuries as the secretary of the treasury may designate, United States notes, treasury notes, and silver dollars in gold coin.

We have now finished the consideration of the commission's plan as respects the accomplishment of its first and most important object—the insuring that the gold standard shall be easily and certainly maintained. We pass on to the second chief object—the furnishing of a satisfactory bank-note circulation. Here, as is well known, the great defect of the present order is the lack of elasticity. Our bank notes are as good as gold from

the Atlantic to the Pacific, without reference to the credit or the standing of the particular bank issuing them. But it is felt to be a ground of complaint that they are neither readily expansible nor promptly contractile. They do, indeed, respond when there is a great increase in need, but so slowly that, before they are forthcoming, the crisis is already past. So, when once out, they tend to stay out indefinitely, and that, too, in spite of a sudden falling off in the need to a point much below the normal. But, while it was the commission's special business to furnish a more elastic bank circulation, it was necessary, also, to bear in mind the element of security, since the very process of insuring the elasticity of a note system almost inevitably diminishes its security. We have thus to judge the commission's plan at this point with respect to these two characteristics, elasticity and security.

Now, elasticity breaks up into two or three special phases which need to be distinguished in the process of passing judgment upon the commission's plan. Naturally, we have to distinguish, first, expansibility and contractility; for it is quite possible to have the former, in some degree at least, without the latter being adequately secured. Again, both expansibility and contractility need to be considered as respects their realization both in ordinary times and in special emergencies; since the devices suitable for the one case might prove quite inadequate in the other.

As respects the provisions for expansibility, and, particularly, expansibility in ordinary times, but little objection has been made to the plan of the commission. In aiming to secure this requisite any project of reform must bear in mind three things, namely, the furnishing of adequate powers of issue; second, the supplying of suitable machinery; and, third, insuring the presence of adequate motive in the issuer. As respects the powers of issue, the commission's bill scarcely alters the present system, since only the power of issue up to 80 per cent. of the capital stock can be thought of as available in ordinary times,¹

¹ The issue beyond this point is subject to a 6 per cent. tax.

and this is but little higher than the present maximum limit. This remark, however, applies only to the range of expansibility in an individual bank. As respects the system as a whole, the commission's bill plainly provides for expanding power of issue, since it makes the conditions under which capitalists can organize a national bank possessed of the power of issue less onerous than they are at present ; that is, it removes the limits to the expansion of the total bank capital, and so to the expansion of the total bank circulation, which are now set by the difficulties in the way of procuring the necessary bonds for deposit.

As respects the machinery of issue, there is little or no improvement upon the present system. It is rather surprising that, unlike a good many other rival bills, this one does not adopt the expedient of requiring the comptroller to keep on hand a stock of bank notes for each bank.

But, while the commission bill has made comparatively little change in the power of issue and the machinery of issue, it has practically revolutionized the system as respects the furnishing of motive to the banker to expand his issues. Of course, the greatest hindrance to expansibility in the present system is the lack of profitableness in the business of issuing notes. The new bill at once strikes the tap root of this defect by providing that issues shall be based upon ordinary assets. This is done at first in part, later for the whole issue. This, plainly, will make a very great difference in the profitableness of the business. At present the banker who desires to use the power of issue must invest a considerable portion of his resources in assets which bear a very low rate of interest as compared with commercial paper. Under the new system, in that it requires no special deposit to secure the notes, he would be enabled to invest all his resources in such assets as shall be in the time and place most profitable.

As respects the expansibility needed in an emergency, the plan of the commission leaves me with some misgivings. This need the commission plainly intended to meet with the portion of the note issue between 80 and 100 per cent. of the capital,

this being taxed at 6 per cent.—a prohibitive rate in ordinary times. Barring this high tax, there is between this issue and that which is used in ordinary times no essential difference. It is not legal tender; it has no special security. Now, I cannot help feeling some doubt whether a circulation conditioned just like the ordinary circulation provided for by this bill would really be of any great use for the purposes of the emergency circulation. As is well known, the theory of such an issue is that it accomplishes chiefly two objects. It meets that almost incalculably increased demand for anything which may be called money which characterizes a panic; and, secondly, it suddenly expands the resources of the banks, thus permitting them to pursue the policy of giving liberal discounts, which is thought to be the proper treatment for a panic. As is generally believed, success in accomplishing these objects, and particularly the second, is chiefly due to psychological effect of the emergency issue in restoring confidence by giving the impression that, if necessary, unlimited supplies of satisfactory money will be forthcoming. Now, it is doubtful whether such restoring of confidence can come from an issue such as the bill provides for.

The great historic illustrations of the employment of this device are to be found in the experience of the Bank of England. It is also present in the German system, but has scarcely been put to the test. In the former case the note issue is legal tender, at least as long as it is convertible at the bank. Further, in both cases, the extraordinary prestige of the banks, their possession of the practical monopoly of the business, their intimate relations with the government, their enormous capital, their world-wide connections, all these insure that any issue which they make will be as good as gold and so will promptly and powerfully influence the public mind. But it is questionable if this could be said of an issue emanating from a number of independent, isolated banks, and wanting the status of legal tender as between individuals. Perhaps this objection is met by the fact of a joint guarantee for the notes by all the banks in the system. But I still have doubts.

There is another objection to the commission's emergency circulation closely allied with the one just considered. In the instances where the plan has been successfully tried, the notion of *unlimitedness* has been present. Where, for example, the government of England has indirectly given the bank the power to issue two millions more notes, it has also made it understood that, if necessary, the process would be repeated indefinitely. So, in the case of the Bank of Germany, there is no limit to its expansion of the issue, provided the assets are present and the tax is paid. In like manner, our practice of issuing clearing-house loan certificates gives a power of expansion much less precisely limited than one defined as a certain per cent. of the banking capital. Now, it is natural to argue that the psychological value of the emergency issue is largely dependent on this sense of unlimitedness. One hundred millions might prove too little, if it were absolutely all that could be had, while ten millions might furnish a superfluity, if it were but the first installment of an increase which was thought of as possibly unlimited. In general, I am decidedly inclined to the opinion that the true solution of this problem of an emergency circulation will be some utilization of the clearing-house issue secured by the deposit of ordinary assets.

Thus much for the expansibility side of elasticity. As regards the fitness of the commission's plan to insure contractility in the bank circulation, it has been subjected to a good deal of hostile criticism. Doubt is expressed as to its efficacy in two particulars, at least, viz., the furnishing of suitable machinery to facilitate the return of notes, and, secondly, the insuring that there shall be adequate motive, whether in the note-holder or the note-issuer, to secure this return. These objections do not apply in any considerable degree to the emergency part of the circulation. Adequate motive to induce the issuer to redeem his excess of notes as fast as possible is certainly furnished by the tax of 6 per cent.; while, with such a force acting on the issuing banker, adequate machinery to enable him easily and quickly to carry out his purpose is pro-

vided by the continuance of the present plan, whereby any bank which desires to contract its circulation can deposit so much of lawful money with the comptroller as equals the amount which it desires to withdraw.

But, while the provisions for emergency contractility are entirely satisfactory, it is doubtful if the same can be said for contractility in ordinary times. As respects machinery, the commission's plan continues the present practice of making each bank an agency for all the banks in the matter of redemption, by making the notes legal tender to any bank in the system. This is doubtless all right. If equally good provisions were made for carrying the work a stage further, so that notes once in the hands of the banks should not again get into circulation until they had passed through the hands of the issuer, there would be no cause for criticism. But for this latter stage in the process the bill does comparatively little. Redemption is to take place through the treasury or subtreasuries, as at present, although the comptroller has some latitude in making further arrangements. Perhaps the commission depended upon this clause to insure the evolution of a system which should be thoroughly complete and satisfactory. It seems to me, at least, that the plan of Congressman Fowler, to divide the country into districts and force the notes of any district to stay at home, would greatly facilitate matters.

In the matter of furnishing a motive, whether to the note-holder or the note-issuer, to make use of the redemption machinery so as to bring about a prompt and speedy "homing" of notes, the commission contented itself with putting its dependence upon the self-interest of each bank. That is, the desire of each bank to make room for its own notes is to be trusted to insure that it will return notes of other banks as rapidly as they are received. In answer to the objection that this plan does not work at present, the commission says that the only reason why the machinery we now have is not better used is that the business of issuing notes is so unprofitable that bankers have no particular inducement to hasten home the notes o

other banks in order to make room for their own. All this will be changed if issue-banking be made thoroughly profitable, so that nothing more will be needed to secure a prompt return of idle notes.

Another way to meet the objection that motive for contraction is insufficient would be to point to the tax of 2 per cent. on issues above 60 per cent. and below 80 per cent. of the capital stock. On the hypothesis that at all times the country will have use for a bank circulation amounting to 60 per cent. of the capital, then only the remainder would need to be contractile. But this result would probably be secured by the 2 per cent. tax; since, if there were any serious redundancy, this would bring about a low rate of discount, the bank could not afford to keep out its notes at the cost of paying 2 per cent., and thus would be obliged to utilize its power to contract the circulation by depositing the corresponding amount of lawful money with the comptroller.

But, while it is possible that the provisions just considered will, on the whole, work pretty satisfactorily in securing contractility, one cannot help thinking that it would have been better to make assurance doubly sure by one or two further changes. Thus, there is no good reason for not adopting the provisions of the old Massachusetts law, as also of the present German law, that no bank shall pay out the notes of any other bank except to the issuer or to the redemption agency. Again, it is not easy to understand why the commission failed to do what several other bills have proposed, namely, to repeal section 9 of the Act of 1882 by which restrictions are placed upon the expansion or contraction of bank issues. Perhaps this provision is contained in the bill and I have overlooked it, but I do not remember anything which either directly or indirectly brings about this result.

We have now reviewed the commission's method of dealing with the bank circulation as regards the providing of elasticity. We have yet to consider their provision for the security of these notes. Having given up the device of deposited collateral

for the sake of elasticity, it was plainly necessary to find some substitute. As a matter of fact, the system adopted involves two principal features: a safety fund, amounting to 5 per cent. of the total circulation, and a joint guarantee by all the banks in the system under the management of the comptroller of the currency. Auxiliary to these expedients, as insuring the guaranteeing banks against loss, are the provisions which give them a first lien upon the assets and upon the double liability of stockholders. Naturally enough, so revolutionary a change as this has called forth a good deal of criticism and has led to many expressions of doubt. The present system is admittedly a thorough success as regards the security of the notes, and the commission admits that the country must not be asked to put up with anything less satisfactory in this respect. The Final Report, therefore, devotes much space to demonstrating the perfectly secure character of the proposed system from the standpoint of all the parties interested. Several chapters are given to the study of other banking systems which have depended upon commercial assets. Detailed statistics of our own national banking system are given to show the improbability of any loss growing out of the application of this device to that system. Finally, the discussion is rounded off with a very able and thorough study of the probable working of the commission's bill. Here the interests of three different parties are considered. Will the plan seriously impair the security of the note-holder, or of the other banks in the system, or of the depositor? As respects the case of the note-holder, the argument of the Report certainly seems conclusive. There is doubtless some force in the objection that, under the new system, things would be sufficiently different to make statistics from the old order of things somewhat uncertain guides as respects the working of the new. Still, it is quite incredible that there should be any such development of reckless or dishonest banking as would endanger the position of a note-holder who enjoyed the guarantee of the great body of banks.

As to the second point, *i. e.*, the effect upon the other banks

in the system, the case is not quite so clear. Still I cannot help thinking that a refusal to go into the system on this ground alone would show an excess of conservatism. The provisions for increased care in the superintendence, the influence of affiliated banks deeply interested in maintaining the solvency of all, the increasing density of population and increasing publicity in business affairs which remove further and further the probability of wild-cat banking, insure that the burden of joint guarantee would amount to a very small tax.

Finally, the objection that the depositors would not fare as well under the new system as under the old does not seem very weighty. Doubtless there is force in the consideration that in the present system something is gained by the fact that a portion of the capital must be deposited at Washington, and so cannot be dissipated by bad management; while, under the proposed arrangement, if we suppose the dissipation of, say, 60 per cent. of the capital, this would mean also 60 per cent. of that portion which is now invested in bonds. To this extent the circulation fund would have to be made good from the assets otherwise available to depositors. But a little arithmetic will show that this could not be a great matter. The bond security at present amounts to about one-third the capital, and the capital in turn to one-third the deposits. Consequently, a 60 per cent. loss on those assets which at present secure the notes would amount to 60 per cent. of one-ninth of the deposits, *i. e.*, about 7 per cent. Of course this is worth accounting from the standpoint of the depositor, but it is not so large an amount as to stand in the way of an important reform.

We have given so much space to the consideration of those portions of the plan of the commission which are directed to the accomplishment of the first two objects of reform, *viz.*, the greater stability in the standard of value, and a more satisfactory bank circulation, that we have little left for the third, *i. e.*, the furnishing of better banking and currency facilities for the South and West. While this can scarcely be thought of as an object

co-ordinate in importance with the first two considered, it is yet of no little significance. From the standpoint of practical politics it might perhaps claim to be of even greater importance. It is not unlikely that the lack of banking facilities in the South and West is the chief explanation of the discontent which in those sections voices itself in the silver and soft-money agitations. While doubtless the difficulties of new communities are largely due to causes which only time can remove, such as the comparatively small amount of capital which they possess, nevertheless it can scarcely be denied that much good would result from increased credit facilities.

The accomplishment of this end the commission's bill aims to secure in three different ways. In the first place, very great stress is laid upon the help which would come from the new method of issue. It is argued that the privilege of issuing a circulation based upon commercial assets would both greatly encourage the organization of new banks in the districts named and also cause a considerable increase in the issues of those banks already existing. The argument on this point is extremely forceful and is worth emphasizing, because in the discussions of the commission's plan it has frequently been overlooked. The present system, in that it requires a deposit of bonds as a basis for issue and thus cuts off the chance of reasonable profits from the business, really discriminates against the newer parts of the country; since this unprofitableness is much greater in such districts than in the long settled communities. As noted in an earlier discussion, the unprofitableness of the system grows out of the requirement that the bank shall invest a considerable part of its resources in securities bearing a comparatively low rate of interest. But, plainly, whether or not a given rate is to be accounted low depends upon the alternative investments which are open to the banker. In the older districts such alternative investments at times bring even lower returns than government bonds. But matters are far different in the newer districts. There banks will find opportunities for the use of all their resources at from six to eight per cent. Naturally

enough they will invest the minimum possible in government bonds. In consequence, those portions of the country which have the greatest need for notes have as a rule the smallest supply. The plan of the commission would change all this. With issues on general commercial assets, the frontier banks would find it to the highest degree profitable to lend their credit in this particular form; and we can scarcely doubt that the consequence would be a great extension of banking facilities in those regions.

But the commission was not satisfied with the improvement which would come from the changed method of issue. It proposed, besides, two further modifications to meet this need for increased facilities in the South and West. The first lowers the minimum of bank capital from \$50,000 to \$25,000. The second permits the establishment of branch banks. It is probable that this including of both expedients was more or less of a compromise between opposing views. It would seem that, if the idea of branch banks were thoroughly carried out, there would be no occasion for lowering the minimum of bank capital. There are certainly serious objections to the latter policy, especially under the new system of guarantee by all the banks of the issues of each bank. The chief objection to this device of a joint guarantee from the standpoint of the banks generally, that they would be called upon to bear the losses incurred by reckless or dishonest banks, is rendered much more serious by the provision which opens the business to any group of men with \$25,000 capital. Further, as was pointed out last October in the *Quarterly Journal of Economics*, the provision to lower the banking capital to \$25,000 would be of little use, since even this sum would be too large for the frontier villages. On the other hand, the branch-bank system is particularly efficacious in that it places at the disposal of the outlying districts the resources and experience of great central banks. Thus it would seem better to depend wholly on the branch-bank plan of procedure.

We have now passed in review the leading features of that

plan of currency reform which is the very notable outcome of one of the most notable movements of our time—the first thoroughly organized movement of the business classes in the whole country directed to the bringing about of a radical change in national legislation. It is hard to leave the subject without speculating as to the probable result of so noteworthy a series of efforts. While tempted to indulge in some pages of such speculation, space limits compel me to content myself with two or three sentences. It is probably a foregone conclusion that the particular plan of reform indorsed by the Indianapolis Convention will not become the law of the land. Nay, more, it is not improbable that the present agitation will die out without having secured any considerable change in our laws. Even in that case, however, the movement will not necessarily have been in vain. At least the business classes will have gained in aptitude to undertake the influencing of legislation. The public will have gained in the knowledge of monetary and banking matters necessary to prepare them to pass judgment upon any future project of reform. Finally, the leaders will have made progress toward securing that definiteness and unity in idea and purpose which will be indispensable for carrying through the work of reform when at last the time shall be ripe. In any case, the commission certainly has the right to congratulate itself upon having produced a plan of currency reform at once moderate, catholic, and thorough—a plan to which, in its essential features, the great majority of those who can claim to speak with any degree of authority have given full and cordial approval.

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